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## **INTRODUCTION**

The Grand Traverse County Friend of the Court (FOC) had a contract with the Michigan Family Independence Agency (FIA) to enforce all orders of support over which the Grand Traverse County FOC had jurisdiction, to locate absent parents, and to provide certain reports on child support collections to the FIA. The Grand Traverse County FOC billed the FIA monthly under the actual cost reimbursement billing method. The FIA reimbursed Grand Traverse County for their costs based on the Federal IV-D Program regulations.

## **SCOPE**

We performed an audit of the costs submitted for reimbursement by the Grand Traverse County FOC for the period January 1, 1996 through December 31, 1996. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We performed the audit tests that we determined were necessary to determine if costs charged were proper, accurate, documented, and charged in accordance with the terms of the contract.

## **EXECUTIVE SUMMARY**

We found that the Grand Traverse County FOC overbilled the FIA for some line items. The State share of the amount overbilled is \$14,244. (See Schedule A.) We also found the County was not complying with the internal service fund requirements of Federal Office of Management and Budget Circular A-87 (A-87) and the nature of recovered court costs was not clearly documented.

Our report recommends the Family Independence Services Administration initiate the process to recoup \$14,244 from the Grand Traverse County FOC. Our report also recommends the

County comply with the internal service fund requirements of A-87. We also recommend the County clearly document and identify the nature of recovered court costs.

### **FOC RESPONSE**

The Grand Traverse County Deputy Administrator, Director of Finance, for the FOC, disagrees with Findings #2 and #3. He indicated Finding #2 should be eliminated because the Management Information Systems fund balance consists mostly of equipment basis and has very little working capital as defined by Generally Accepted Accounting Principles. He indicated Finding #3 should be eliminated because certain of the fringe benefit rates have been reduced to zero in 1998 in order to correct the excess balance in the internal services fund.

### **FINDINGS**

#### **Personnel Billed not in Agreement with the General Ledger**

1. The Grand Traverse County FOC overbilled the FIA \$8,218 for Personnel costs. The billed costs do not agree with the costs contained in the general ledger. The general ledger is a source document for the billings. (See Schedule A.)

#### **Internal Service Fund Billings, Data Processing**

2. The Grand Traverse County FOC overbilled FIA \$4,476 for data processing. Data processing was billed to the FOC by the Management Information Systems fund (an internal service fund) using internal County rates. The internal County rates did not accurately reflect the actual costs of data processing. The internal County rates generated net income in the Management Information Systems fund. (See Schedule A.)

#### **Internal Service Fund Billings, Fringe Benefits**

3. The Grand Traverse County FOC overbilled the FIA \$7,164 for personnel costs. The overbilled amounts were for health, workers' compensation and short term disability billed using internal County rates. The costs were from the Fringe Benefits fund (an internal service fund). The internal County rates did not accurately allocate the actual cost of health, workers' compensation and short term disability. (See Schedule A.)

The County's single audit listed short term disability and workers' compensation benefits as questioned costs but without a dollar adjustment. They were listed as questioned costs because the Employee Fringe Benefits fund did not comply with the reserve requirements of A-87, Attachment C, Subsection G.2. The County had reduced the internal County rates starting in September of 1997 apparently to reduce the reserve balances in the fund. A reduction (or increase) to future rates to adjust for billed rates of a prior period is allowable under A-87 Attachment C, Subsection G.4. If the reduction in rates had reduced the reserve balances it would have effectively eliminated the need for our adjustment. An adjustment is made in our audit, however, because as of the end of 1997 the fund balance increased and the reserve balances for workers' compensation and short term disability were only reduced a minor amount.

A-87 Attachment B, Subsection 25.d.2 also requires the County to credit earnings or investment income on reserves. No earnings or investment income was credited to the Employee Fringe Benefits fund although there were reserves.

#### Recovered Court Costs not Clearly Identified or Documented

4. The Grand Traverse County FOC did not include, on its billings to FIA, \$10,329 of recovered court costs that were credited to its' account. The billing instructions require recovered court costs to be included if the costs were IV-D funded. The FOC and the Deputy Administrator, Director of Finance stated the costs recovered were not costs of the FOC and, therefore, no adjustment was done in this audit. Although no adjustment is done, the nature of the costs recovered needs to be identified in the order or in some other systematic manner. Identification is needed because the statutes that allow the recovery of costs list certain costs that are, or could be, costs of the FOC. The fact that the recoveries are posted to the credit of the FOC, without specific documentation otherwise, makes it appear they are recovered FOC costs.

WE RECOMMEND the Family Independence Services Administration initiate the process to recoup \$14,244 from the Grand Traverse County FOC.

WE ALSO RECOMMEND the County comply with the internal service fund requirements of A-87 and that the Grand Traverse County FOC clearly document and identify the nature of recovered court costs.

Finding #	Line Item	Year	(Over)/Under Billed Gross Amount	IV-D %	(Over)/Under Billed IV-D Amount	State %	Due (State) County
1	Personnel	1996	\$ (8,450)	97.26%	\$ (8,218)		
2	Data Processing	1996	\$ (4,602)	97.26%	\$ (4,476)		
3	Personnel	1996	\$ (7,366)	97.26%	\$ (7,164)		
<b>Grand Total of the IV-D Audit Adjustments</b>					<b>\$ (19,858)</b>		
<b>Calculation of the Payment Due the (State) County</b>							
Audited IV-D Amount					709,616		
IV-D Amount Used for the Payments Actually Made					(729,473)		
IV-D Audit Adjustment Due (State) County					(19,858)	71.73%	(14,244)